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September 14, 2010

AGENDA ITEM 3g

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

I. SUBJECT: Review of 30 Year Amortization Extension Policy Guidelines

II. PROGRAM: Retirement

III. RECOMMENDATION: Information Only

This is an information item as requested by the Committee. It sets forth the Chief Actuary's revised guidelines for approving requests by employers for extensions of up to 30 years to amortize their unfunded liability.

IV. ANALYSIS:

Since 1996, Board policy on amortization periods contained a provision that allowed employers facing financial hardship to request an extension of time, up to 30 years, to amortize their unfunded pension liability. (Board Policy ACT-96-05E) The provision stated that the employer could petition the Board "or its designee" to obtain such an extension. At its December 2002 meeting, the Board amended the policy to state that the employer could petition the Chief Actuary for such an extension. Later, at the February 2003 meeting, the Chief Actuary outlined guidelines to be used in deciding whether to grant such an extension. Please see Attachment 1 for a copy of the February 2003 BPAC Agenda Item.

The current guidelines require evidence from the employer that rate relief is needed in the form of a statement of hardship from the employer. A statement that it has notified employees or employee groups of the request for an extension of the employer's amortization period is also required.

Also included in the current guidelines for considering a request for an extension is a requirement that the employer have sufficient assets to cover the liabilities upon termination of the employer's plan. As discussed with the Board in April 2010, in today's environment, few, if any, agencies would meet this requirement.

At the May 2010 meeting of this Committee, representatives of Santa Clara County requested that the guidelines be revised to recognize the current fiscal environment. Following the meeting, further discussions took place between Santa Clara County representatives and CalPERS actuarial staff. As a result of those discussions, the Chief Actuary has revised the guidelines that will be used when considering an employer's request for a funding extension.

Under the revised guidelines, if the employer's assets are insufficient to cover the liabilities of the plan upon termination, other factors will be considered and the employer's request will be reviewed on a case by case basis based on the employer's specific facts and circumstances and in accordance with Board policy ACT-96-05E, included as attachment 3.

Before an extension will be authorized, the Chief Actuary will ascertain how the agency plans to provide for anticipated future rate increases in light of the 2009 asset loss and recently adopted actuarial assumptions.

The guidelines as revised can be found in Attachment 2. The significant revisions to the existing guidelines have been underlined in Attachment 2. The guidelines are not meant to be exclusive and additional facts or criteria may be examined where deemed necessary by the Chief Actuary.

V. STRATEGIC PLAN:

This item is not a specific product of the Strategic or Annual Plans but is part of the regular and ongoing workload of the Actuarial & Employer Services Branch.

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ALAN MILLIGAN
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Attachments